

Northport/Leelanau Township Utilities Authority

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

February 28, 2014

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Northport/Leelanau Township Utilities Authority
Management Discussion and Analysis (Unaudited)
February 28, 2014

Our discussion and analysis of Northport/Leelanau Township Utilities Authority's ("the Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended February 28, 2014. Please read it in conjunction with the Authority's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended February 28, 2014.

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$197,556. Of this amount, \$194,672 may be used to meet the Authority's ongoing obligations to citizens and creditors. This amount is equivalent to 70% of total expenses.
- The Authority's net position increased by \$20,595 over the prior year.

Using this Annual Report

This annual report includes this management discussion and analysis report, the independent auditor's report and the basic financial statements of the Authority, including notes that explain in more detail some of the information in the financial statements.

The financial statements report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information for the Sewer System activity. The Statement of Net Position includes all of the Authority's assets, liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to their creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing its liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Authority's operations over the past year.

The final financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

Northport/Leelanau Township Utilities Authority
Management Discussion and Analysis (Unaudited) - Continued

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information to determine how the Authority did financially during the year ended February 28, 2014. The net position, of the difference between assets and liabilities and the changes in them, can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors, such as changes in economic conditions, population growth and new or changed government legislation also need to be considered in determining the Authority's financial health.

The Authority As a Whole

The following schedule summarizes net position at February 28:

	<u>2014</u>	<u>2013</u>
Assets		
Current assets	\$ 160,242	\$ 171,309
Restricted assets	120,154	93,166
Non-current assets	<u>2,884</u>	<u>3,414</u>
 TOTAL ASSETS	 <u>\$ 283,280</u>	 <u>\$ 267,889</u>
 Liabilities		
Current liabilities	\$ 85,724	\$ 90,928
Long-term liabilities	<u>-</u>	<u>-</u>
 Total liabilities	 <u>85,724</u>	 <u>90,928</u>
 Net Assets		
Invested in capital assets, net of related debt	2,884	3,414
Unrestricted	<u>194,672</u>	<u>173,547</u>
 Total net assets	 <u>197,556</u>	 <u>176,961</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 283,280</u>	 <u>\$ 267,889</u>

For the fiscal years ended February 28, 2014 and 2013, revenues, expenses and changes in net position were as follows:

Northport/Leelanau Township Utilities Authority
Management Discussion and Analysis (Unaudited) - Continued

	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Program Revenues				
Charges for services	\$ 294,500	98.5%	\$ 294,725	98.4%
Reimbursements	<u>4,509</u>	<u>1.5 %</u>	<u>4,719</u>	<u>1.6%</u>
Total program revenues	299,009	100.0%	299,444	100.0%
Non-Operating Revenues				
Interest income	<u>77</u>	<u>0.0%</u>	<u>55</u>	<u>0.0%</u>
Total revenues	299,086	100.0%	299,499	100.0%
Expenses				
Sewer system	<u>278,491</u>	<u>100.0%</u>	<u>263,781</u>	<u>100.0%</u>
Change in Net Position	<u>\$ 20,595</u>		<u>\$ 35,718</u>	

While the Statement of Net Position shows the financial position at the end of each year, the Statement of Revenues, Expenses and Changes in Net Position shows how total revenues and expenses increased or decreased the net position during the year. Depreciation expense of \$1,094 is a noncash expenses, which represents the reduction in the value of the Authority's equipment.

The total net position of the Authority increased \$20,595 to \$197,556 during 2014.

Budgetary Highlights

The Authority is an enterprise fund and is not required to adopt an annual budget.

Capital Asset and Debt Administration

The Authority's investment in capital assets as of February 28, 2014, amounted to \$2,884, net of accumulated depreciation. A summary of changes in capital assets for the year then ended follows:

	<u>3/1/13</u>	<u>13-14</u>	<u>2/28/14</u>
	<u>Balance</u>	<u>Additions</u>	<u>Balance</u>
Equipment	\$15,972	\$ 564	\$ 16,536
Less: accumulated depreciation	<u>(12,558)</u>	<u>(1,094)</u>	<u>(13,652)</u>
Net Capital Assets	<u>\$ 3,414</u>	<u>\$ (530)</u>	<u>\$ 2,884</u>

Northport/Leelanau Township Utilities Authority
Management Discussion and Analysis (Unaudited) - Continued

The Authority had no outstanding long-term debt at any time during the year ended February 28, 2014.

Economic Factors and Next Year's Budget and Rates

The Authority performs an annual audit of the SAD to review REU changes and new connections to the system. The Authority expects new growth in the SAD, which will result in costs for construction of the new connections. The Bond debt payments are near the halfway point, and the Authority plans to request that Robert Bendzinski Jr. perform a reevaluation of the original debt service schedule for planning purposes.

The monthly \$43 per residential equivalent unit (REU) sewer operation and maintenance fee and the \$12 per REU monthly debt service fee will continue to be collected from all sewage generating parcels within the sewer system service area.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions regarding this report, please contact the Northport/Leelanau Township Utilities Authority, P.O. Box 158, Northport, Michigan 49670.



DENNIS, GARTLAND & NIERGARTH

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Northport/Leelanau Township Utilities Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the *Northport/Leelanau Township Utilities Authority* ("the Authority") as of and for the years ended February 28, 2014 and 2013, which comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this include the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northport/Leelanau Township Utilities Authority as of February 28, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through v be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basis financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Dennis, Gartland & Niergarth

August 12, 2014

Northport/Leelanau Township Utilities Authority

STATEMENTS OF NET POSITION

February 28,

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash	\$ 42,789	\$ 62,793
Accounts receivable	113,076	104,303
Prepaid expenses	4,377	4,213
Total current assets	<u>160,242</u>	<u>171,309</u>
RESTRICTED ASSETS		
Cash	<u>120,154</u>	<u>93,166</u>
NON-CURRENT ASSETS		
Office furniture and equipment	16,536	15,972
Less: accumulated depreciation	<u>(13,652)</u>	<u>(12,558)</u>
Total non-current assets	<u>2,884</u>	<u>3,414</u>
TOTAL ASSETS	<u><u>\$ 283,280</u></u>	<u><u>\$ 267,889</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 37,962	\$ 45,011
Accrued payroll and withholdings	625	528
Due to other governments	<u>47,137</u>	<u>45,389</u>
Total current liabilities	<u>85,724</u>	<u>90,928</u>
NET POSITION		
Invested in capital assets, net of related debt	2,884	3,414
Unrestricted	<u>194,672</u>	<u>173,547</u>
Total net position	<u>197,556</u>	<u>176,961</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 283,280</u></u>	<u><u>\$ 267,889</u></u>

The accompanying notes are an integral part of these financial statements.

Northport/Leelanau Township Utilities Authority

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended February 28,

	2014	2013
OPERATING REVENUES		
Sewer charges	\$ 294,500	\$ 294,725
Reimbursements	4,509	4,719
Total Operating Revenues	299,009	299,444
OPERATING EXPENSES		
Operation and Maintenance		
Personnel services		
Salaries and wages	15,307	14,900
Payroll taxes	1,575	1,524
Other Services and Charges		
Contracted Services	186,089	176,909
Depreciation	1,094	1,227
Utilities		
Electric	50,907	48,114
Gas & Oil	305	1,304
Operating supplies	7,643	2,036
Permits	3,650	3,650
Printing and publishing	-	109
Insurance	5,571	5,247
Office supplies and postage	1,106	1,082
Telephone	3,713	3,940
Repairs and maintenance	203	2,515
Other	1,328	1,224
Total Operating Expenses	278,491	263,781
Operating income	20,518	35,663
NON-OPERATING REVENUES		
Interest income	77	55
CHANGE IN NET POSITION	20,595	35,718
NET POSITION, beginning of year	176,961	141,243
NET POSITION, end of year	\$ 197,556	\$ 176,961

The accompanying notes are an integral part of these financial statements.

Northport/Leelanau Township Utilities Authority

STATEMENTS OF CASH FLOWS

Years Ended February 28,

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and pass-through grants	\$ 290,236	\$ 297,144
Cash payments to suppliers for goods and services	(267,458)	(201,449)
Cash payments to employees for services	(15,307)	(14,900)
Net cash provided (used) by operating activities	7,471	80,795
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(564)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	77	55
NET INCREASE (DECREASE) IN CASH	6,984	80,850
CASH, beginning of year	155,959	75,109
CASH, end of year	\$ 162,943	\$ 155,959
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 20,518	\$ 35,663
Adjustments to reconcile operating income to cash provided by operating activities		
Depreciation	1,094	1,227
Increase in accounts receivable	(8,773)	(2,300)
Decrease in prepaid expenses	(164)	(216)
Increase (decrease) in accounts payable	(7,049)	43,393
Increase (decrease) in accrued expenses	97	(31)
Increase in due to other governmental units	1,748	3,059
Net cash provided by operating activities	\$ 7,471	\$ 80,795

Northport/Leelanau Township Utilities Authority

NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Northport/Leelanau Township Utilities Authority (the “Authority”) is a public municipal authority incorporated pursuant to Act 233 of the Public Acts of Michigan of 1955, as amended. The Authority was incorporated in 2006 by the Village of Northport and Leelanau Township, both located in Leelanau County. The Authority was formed for the purpose of acquiring, owning, improving, enlarging, extending, and operating a sewage disposal system service within the member municipalities.

The accounting and reporting framework and the significant accounting principles and practices of the Authority are discussed in the subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Authority’s financial activities for the fiscal years ended February 28, 2014 and 2012.

The Financial Reporting Entity

Northport/Leelanau Township Utilities Authority Board of Directors (the “Board”) is the basic level of government which has oversight responsibility and control over all activities related to sewage disposal service. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Basis of Presentation

The operations of the Authority are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses. The Authority’s resources are allocated to and accounted for in the individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The funds in the financial statements are described as follows:

Proprietary Funds

Sewer Fund – The Authority presents one major enterprise fund. This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

NOTES TO FINANCIAL STATEMENTS - Continued

Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of each fund are included on the Statement of Net Position. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

If both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

The Authority's reporting entity considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted Cash

Restricted assets represent cash balances restricted for capital improvements and replacements and biosolids disposal.

NOTES TO FINANCIAL STATEMENTS - Continued

Accounts Receivable

Receivables have been recognized for all significant amounts due to the Authority from various individuals and businesses related to charges for services. Trade receivables are shown without an allowance for uncollectible accounts because delinquent amounts attach as a lien against the benefited property, which assures their eventual collection.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 5 to 50 years. The Authority general capitalizes assets with costs of \$1,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charges to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Office furniture and equipment	3-5 years
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Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE B – BUDGETARY POLICY

The Authority is required by its articles of incorporation to prepare an annual budget. Formal budgetary control is not imposed under State of Michigan laws on proprietary fund types.

NOTES TO FINANCIAL STATEMENTS – Continued

NOTE C – CASH AND CASH EQUIVALENTS

At February 28, 2014, the Authority's cash and cash equivalents include the following:

Bank Deposits – Credit Risk

	Carrying <u>Value</u>	<u>Uncollateralized Bank Balances</u>		
		<u>Insured</u>	<u>Uninsured</u>	<u>Total</u>
Bank deposits	\$162,943	\$163,434	\$ -	\$163,434

All of the Authority's bank deposits are with financial institutions which provide FDIC insurance coverage.

Custodial Credit Risk – Deposits

In the event of a bank failure, the Authority's deposits may not be returned to it. As of February 28, 2014, the Authority's deposits were fully insured.

NOTE D – CAPITAL ASSETS

A summary of changes in the Authority's capital assets follows:

	Balance <u>3/01/13</u>	<u>Additions</u>	Balance <u>2/28/14</u>
Office furniture and equipment	\$15,972	\$ 564	\$ 16,536
Less: accumulated depreciation	<u>(12,558)</u>	<u>(1,094)</u>	<u>(13,652)</u>
Net Capital Assets	<u>\$ 3,414</u>	<u>\$ (530)</u>	<u>\$ 2,884</u>

Depreciation expense for the year ended February 28, 2014 amounted to \$1,094.

NOTES TO FINANCIAL STATEMENTS – Continued

NOTE E – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority has purchased commercial insurance from the Michigan Township Participating Plan. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Township Participating Plan operates its public entity risk pool and group self-insurance program as common risk management and insurance programs for various municipalities throughout the State. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of
Northport/Leelanau Township Utilities Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northport/Leelanau Township Utilities Authority ("the Authority"), as of and for the year ended February 28, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated August 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness:

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records) and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the Authority has historically relied on its independent external auditors to assist in the preparation of basic financial statements as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the Authority's internal controls.

Cause: This condition was caused by the Authority's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary resources required for the Authority to perform this task internally.

Effect: As a result of this condition, the Authority lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The Authority has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the Authority to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Directors
Northport/Leelanau Township Utilities Authority
Page 3

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described above. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis, Gartland & Niergarth

August 12, 2014